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C O N F I D E N T I A L SECTION 01 OF 03 SARAJEVO 000147

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TAGS: ECON ENRG PREL BK

SUBJECT: BOSNIA: TRANSCO UPDATE - TALKS CONTINUE BUT NO  
REAL PROGRESS

REF: A. A) 08 SARAJEVO 1835 AND PREVIOUS

¶B. B) 08 SARAJEVO 1613

Classified By: AMB CHARLES ENGLISH FOR REASONS 1.4B

¶1. (C) Summary. Little has happened since the entity Prime Ministers agreed on December 3 (Ref A) to do everything possible to jumpstart operations at the State-level electricity transmission company (TRANSCO). The first meeting between the entity Ministers of Energy finally took place on January 27. Although both sides agreed to review the counterparts, proposals and reconvene, no significant agreements were made. Despite his December 3 commitment to compromise, Republika Srpska Prime Minister Dodik told us on January 28 that he is keeping his options open in terms of pushing to dissolve TRANSCO. Dodik has also included TRANSCO on a list of 56 competencies that he claims have been transferred to the State from the RS and that he intends to restore. Without clear direction from Prime Minister Dodik to RS officials that they must cooperate in TRANSCO proceedings, the company's stalemate will continue. Judging from RS Energy Minister Puhalac's position in the January 27 meeting, the RS does not appear willing to compromise and has not shifted significantly from its original February 2008 restructuring proposal, which effectively called for dissolution of TRANSCO. In a more welcome development, the Federation is now engaged on the issue of TRANSCO and came well prepared to the January 27 meeting with proposals for compromise where appropriate and ready to draw clear lines opposing the most egregious RS demands. However, given the track record of RS behavior on this issue, it is questionable whether the Federation initiatives will be sufficient to put this on a constructive track. End Summary.

ENERGY MINISTERS FINALLY DISCUSS TRANSCO

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¶2. (SBU) Following the December 3 agreement between Prime Ministers Dodik and Brankovic (reftel), Ministers of Energy Puhalac (RS) and Heco (Federation) finally met on January 27 to discuss how to &jumpstart8 operations of the state-managed electricity transmission company Electroprijenos (TRANSCO). The two sides convened an earlier, assistant-minister-level meeting in late December which resulted in no progress and the January 27 meeting was the first real effort to work out a resolution. Although the Ministers agreed to review the counterparts, positions and return to talk again on February 10, no agreements were made on key problems, meaning a continued freeze on the daily and long-term operations of the company. The biggest sticking point continues to be the RS position, and the Federation refusal, to restructure the company's operational areas from four to three, ethnically-based areas (similar to the Mostar-, Sarajevo- and Banja Luka-based power generation and

distribution companies, the Elektroprivredas). Investment planning was one area where the ministers did make progress. Although they still disagree on the method for investment planning, they did agree to allow the Management Board to develop investment plans based on existing legislation with the Prime Ministers given the ultimate approval, including approval of the 2008 investment plan. On the transfer of 110 KV lines from TRANSCO back to the Elektroprivredas, the Federation's proposal to transfer only 110 KV lines used for distribution was rejected by the RS which wants all lines, including those used for transmission, returned to the EPs. The two sides agreed to have the Management Board provide them with a full list of 110 KV assets and personnel, with which they can begin future discussions on the transfer issue.

RS FUZZY ON TRANSCO FUTURE ) MAINTAINS PREVIOUS DEMANDS

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¶3. (C) In a meeting with us on January 28, Prime Minister Dodik claimed that he does not intend to dismantle TRANSCO &right now8. However, he implied that he intends to keep his options open, suggesting that if the RS side is not satisfied with current talks to reform the company, he will reconsider. He recently demonstrated what may be his true intentions by including TRANSCO on a list of 56 competencies that he claims were transferred to the State from the Republika Srpska. Dodik and other senior RS officials, including Serb member of the Tri-Presidency Radmanovic, have frequently claimed that many of these alleged transfers were illegal. In October 2008, Dodik secured an endorsement from the RS National Assembly (RSNA) for this procedure and

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announced plans to reverse this allegedly illegal competency transfer (Ref B). (Note: Dodik's claims about illegal competency transfers are bogus. What he defines as a competency transfer, such as border control, is actually the state exercising powers guaranteed to it under the constitution. End note)

¶4. (C) In a December 24 meeting with us, RS Minister of Energy Puhalac claimed that the Federation, the RS and the international community have &differing opinions8 on the outcome of the December 3 agreement. The RS side continues to demand Federation consent to its February 2008 proposal, including provisions to renegotiate investments and restructuring TRANSCO internal operations by turning four operational areas into three, ethnically-based areas and dissolving three of the five company directorates ) provisions that would ultimately lead to the dissolution of the company. Prior to the January 27 meeting, the RS also added to the agenda a discussion of the language in the State Law addressing dissolution of the company.

FEDERATION FINALLY COMES TO THE TABLE WITH A PLAN

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¶5. (SBU) After nearly one year of simply ignoring the RS proposal to restructure TRANSCO, the Federation met with emboffs on Monday, January 26 to review its negotiating positions prior to the January 27 meeting. Much to our surprise, Federation Minister of Energy officials had dissected RS, proposal, drafted its own positions, some of which included real compromise. Many of the Federation's points related to recommendations provided over the last year by USAID consultants, though Federation energy officials have come to embrace these proposals as their own. Federation officials chose to negotiate with the RS on the transfer of certain 110 KV lines from TRANSCO back to the entity-managed power generation and distribution companies (Electroprivreda ) EP), reducing the number of company directorates from five to three and how to develop annual investment plans ) all areas of major concern to the RS. The Federation refuses to negotiate on the RS plan to reduce the operational areas of

the company from four to three, ethnically-based area and the plan to move all company operations to Banja Luka (presently, the company has offices in Sarajevo, Mostar and Banja Luka).

INTERNATIONAL COMMUNITY CONTINUES PRESSURE

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16. In the January 27 meeting, the Federation reissued the proposal for international assistance for a management audit.

Preliminary indications are that the RS again rejected this proposal. The Ministry of Foreign Trade and Economic Relations (MOFTER) hosted an EU delegation from the Energy Treaty Committee the week of January 19 who focused in particular on the lack of progress on TRANSCO. According to Federation contacts, RS officials were asked by the EU why they chose to reject international community assistance to save the company. RS officials answered that they had not yet &completely<sup>8</sup> rejected &all<sup>18</sup> assistance. Following their response, the EU has resubmitted its proposal for a TRANSCO management audit.

COMMENT

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17. Despite RS Prime Minister Dodik's public commitment to compromise, our concerns noted in Reftel about lack of specificity on the December 3 agreement still exist. The true RS intentions are suspect. At the Energy Minister and below levels, the RS seems to be still pushing for the demands it made last February that are clearly designed to return assets and responsibilities to the RS that would leave TRANSCO a shell at best. In an RS government so dominated by Prime Minister Dodik, it is difficult to believe that Energy Minister Puhalac is operating on his own contrary to the wishes of his Prime Minister and SNSD party leader. There are still grounds for optimism, albeit limited, provided the talks continue and produce at least minor positive outcomes, such as the January 27 agreement to approve the 2008 investment plan (to which the Prime Ministers must also agree). A key sign of real intent to improve TRANSCO by the RS would be a good faith acceptance of the management audit and facilitator offered by the IC. A more pessimistic view of the developments since December 3 is that Puhalac is

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simply stringing out discussions with orders from Dodik not to agree to anything fundamental in preparation for an eventual declaration that talks have failed leading to another attempt at unilateral dissolution of the company by the RS. This interpretation is more consistent with the obstructionist, anti-state behavior and actions we have seen from Dodik and the RS over the last two years.

ENGLISH